

Microsoft - Are They Crazy, Like a Fox?

By Nilofer Merchant

By unlocking some IT dollars, Microsoft is betting that enterprises can redirect these funds toward increasing the share of IT spending going toward new technologies. Traditionally, 70% of IT spending is on maintenance, leaving only 30% of budget dollars for new stuff. Microsoft would like to see the share going to new technology grow to 50%. By effectively reducing the cost of server licensing, Microsoft frees up IT dollars needed to fund the innovation in virtualization that will drive Microsoft deeper and broader into the enterprise. So when everything shakes out, Microsoft expects to trade some server licensing revenue for new revenue that makes them an even more pervasive part of the enterprise IT environment.

This change "allows customers to accelerate their adoption of technical innovation," states Bob Kelly, general manager of infrastructure server marketing at Microsoft. "What this means is that Windows becomes the platform for virtualization. Customers will consolidate existing systems to Windows using virtual technology. This is very compelling to our customer base."

So what does this mean for our clients who are not Microsoft? It is not every day that Microsoft frees up a significant amount of IT funds. Yes, they have plans to re-absorb this money, but that is not a given, especially when it requires IT evolution. For companies that feel squeezed by Microsoft's share of the IT budget, now is a great opportunity to expand your market because the window of opportunity will not last long.

Licensing Trends: Software Vendors vs. Enterprises

While vendors are trying to move customers to term licensing (subscriptions), enterprise customers continue to sing the praises of concurrency due to its cost savings and easier management. According to research by Macrovision, subscriptions or term licensing will be offered by a majority of software vendors for the first time in 2006. By 2007, the forecast is that fully two-thirds of software vendors will offer term licensing even though 57% of enterprises prefer perpetual licensing. Moreover, by better than 2-to-1, enterprises see concurrent licensing as preferred over seat-based licensing. Concurrency is the only licensing model to see an increase in customer preference during the past year, so we are already looking forward to the hallway conversations next year.

In the longer term, utility pricing looks to address the needs of both software vendors and enterprises, but utility pricing is clearly not ready for prime time yet.

(Dis)satisfaction with Pricing & Licensing Strategies

Here is a shocker: nobody much likes their licensing models. According to Macrovision's research, less than one in three enterprises are satisfied with software vendors' pricing & licensing strategies. Dissatisfaction is not limited to the customers, as only 57% of software

vendors are satisfied. While to some extent this probably demonstrates healthy market forces at work (meaning compromise has left neither side completely satisfied) it also demonstrates the opportunity for new types of innovative licensing such as term- and utility-based models if software vendors can position them appropriately.

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